

# Revenue raiser

House tax bill adds \$49.6 million in tax-related revenues, raises budget reserves, counts racino revenue worth \$36.2 million

By MICHELLE KIBIGER

**T**he omnibus tax bill, approved by the House Taxes and Ways and Means committees, contains a number of proposals intended to raise revenue, adjust alternative minimum tax income exemptions, phase in a change to the way corporate franchise taxes are calculated, and transfer budget reserves in the event the state experiences additional budgetary problems before the fiscal biennium ends June 30, 2005.

As approved by the committees, tax provisions in the bill would result in \$49.6 million in additional revenues for 2004-05. It includes a \$3.8 million appropriation for increased compliance measures and for specific studies.

The bill also accounts for the financial provisions of the proposed casino at Canterbury Park, part of another bill (HF646) passed by the House during 2003. The tax bill accounts for \$39.7 million in additional revenue as a result of the casino and establishes a stable tax rate for the plan so it provides 40 percent of revenues to the general fund.

However, another provision would provide a 5 percent franchise fee on card club revenue at the racetrack.

In addition, the bill would bring the budget reserve to \$290 million and move \$350 million to the cash flow account. It would also add new spending priorities if the state has another budget surplus before a rebate may be considered:

- add to cash flow account until it reaches \$350 million,
- increase the budget reserve account until it reaches \$635 million,
- restore any property tax revenue shifts for K-12 education, and
- move holdback payments for K-12 state aid up to 90 percent.

There would also be a number of additional restrictions on Internet cigarette sales, as well as reductions on certain special tax rates.

The bill meets its target and keeps effects to the state budget in future biennia at a minimum, said Rep.

Ron Abrams (R-Minnetonka), the bill sponsor, at the April 21 Ways and Means Committee. Economically, he said he is hopeful that eventually the state will begin collecting more revenues than even forecasts expect, which would then allow more flexibility for provisions in the bill.

Several members expressed concern regarding things not dealt with in the bill, including local government aid and local sales taxes.

"I'm not concerned about what's in the bill," said Rep. Paul Marquart (DFL-Dilworth) before the House Taxes Committee April 20. "I'm concerned, members, by what is not in the bill." He said not addressing some of the local government aid cuts from 2003 created "extreme unfairness" to rural Minnesota.

"This bill doesn't correct any of those things," he said.

The bill would increase the exemption allowed for the alternative minimum tax through 2006. By then, the exemption for a married couple, filing a joint return would grow to \$44,000 from the current level of \$40,000, which according to nonpartisan fiscal and research staff, would reduce the number of total filers under the alternative minimum tax by 39 percent. In addition, all tax filers with federal adjusted gross incomes less than \$100,000 subject to the alternative tax would be reduced by 56 percent.

Congress created the alternative minimum tax



PHOTO BY TOM OLMSCHIED

Members of the House Taxes Committee debate the omnibus tax bill that, in part, would result in \$49.6 million in additional revenues for 2004-05, before approving the measure April 20.

To our readers:

This issue of *Session Weekly* marks the final issue under the direction of our editor, Michelle Kibiger. Michelle, who also serves as assistant director for House Public Information Services, is leaving the House after four-and-a-half years of dedicated work.

Michelle leaves behind a magazine that continues to win recognition, including a recently announced National Association of Government Communicators award for publications. Such an award is recognition for the hard work of all of our publications staff, including Michelle.

We wish her the best in her future pursuits.

Barry LaGrave

in the 1960s to target 155 taxpayers who made more than \$200,000 in income but paid no taxes. The tax operates parallel to the regular income tax system. It allows for fewer deductions, exemptions, and credits than regular income tax.

The move will cost the state \$2.2 million in revenue for 2005 and is projected to cost \$13.9 million in the 2006-07 biennium.

The bill would also phase out the charitable contribution limit for alternative minimum taxpayers.

The bill would also phase in a new structure for calculating corporate franchise taxes. Under current law, Minnesota taxes are calculated by a formula that weighs sales in the state at 75 percent, and both property and payroll at 12.5 percent. Under the bill, sales would bear the full 100 percent by 2012, which proponents say increases the incentive for businesses to physically locate in the state and pay employees good salaries.

A few tobacco-related provisions are also included in the bill. Sales taxes on cigarettes would be collected at the wholesale level, based on the gross invoice price of distributors. The provision is an attempt by the Revenue Department to increase compliance in payment of the tax.

In addition, delivery sales of tobacco products, typically from the Internet, would be regulated under the bill, including requirements that sellers verify the identity of the purchaser upon delivery and that shipped packages only be delivered to adults, as verified by a signature.

The bill would also create an international economic development zone within 60 miles of the

Minneapolis-St. Paul International Airport to serve as a regional distribution center that would increase capacity and handle air freight. The zone would be eligible for certain tax exemptions for up to eight years, including state and local sales tax on purchases used by businesses in the zone, property taxes on improvements within the zone, and a jobs credit for higher paying jobs.

The bill also includes a number of provisions heard during the 2004 legislative session.

- Income tax payers may subtract up to \$10,000 for travel and lodging expenses and lost wages related to organ donation, in HF2048, sponsored by House Majority Leader Erik Paulsen (R-Eden Prairie).
- The commissioner of revenue may disqualify a foreign operating corporation if it has no substantial business in the state, has significant transactions that don't reflect market prices, and its income is predominantly domestic on a multi-year basis. Such a finding would also result in a 15 percent surtax to the corporation, under the bill.
- Taxpayers may distribute benefits of the \$2,000 family cap when using the K-12 education credit among children, though they may only claim expenses for two children, part of HF2772, sponsored by Rep. Jim Knoblach (R-St. Cloud).
- Retail businesses would not qualify for incentives under the job opportunity building zones program, as provided in HF2316, sponsored by Rep. Tim Mahoney (DFL-St. Paul).
- Minnesota tax law would conform to new federal provisions, particularly with regard to taxable military income and deductions for contributions to health savings accounts. The health savings account provisions were part of HF1742 and HF1976, sponsored by Knoblach and Rep. Tim Wilkin (R-Eagan).
- The Camp Ripley game refuge in Morrison County would receive a payment-in-lieu of taxes, contained in HF2928, sponsored by Rep. Greg Blaine (R-Little Falls). Payment in lieu for land utilization project lands would be increased from 37.5 cents per acre to 96 cents per acre under the bill, initially provided in HF1740, sponsored by Rep. Irv Anderson (DFL-Int'l Falls).
- Electric generating plants would be eligible for personal property exemptions, as long as the siting plan is approved by the host county and city. The provision includes partial exemptions for existing plans increasing their initial capacities.
- In-home day care providers would be treated as a residential property for tax purposes, under the bill, as provided in HF2200, sponsored by Rep. Doug Magnus (R-Slayton).

The Senate companion (SF2302), sponsored by Sen. Lawrence Pogemiller (DFL-Mpls), awaits action in the Senate Taxes Committee.



## State schoolers

### Minnesota state orphanage in Owatonna operated for 60 years

In 1885 the Minnesota Legislature established the state's only publicly funded orphanage. Located in Owatonna, the State Public School for Dependent and Neglected Children opened its doors the next year.

From 1886 until 1945, 10,635 children lived, studied, played, and worked there. Some were orphans; most were not. Some thrived; others did not. While the average length of stay was about five years, a few spent their entire childhood there. More than 300 died and were buried in the campus cemetery.

Today, the Minnesota State Public School Orphanage Museum, started in 1992 by former resident Harvey Ronglien and his wife Maxine, exists as a testament to the thousands of children who spent their formative years at the institution.

According to museum records, the Legislature called for placing children from poorhouses and impoverished families under the guardianship of the state. Parental rights were revoked. These were the "at-risk" children of an earlier time. Unless they were adopted, they became wards of the state until they were 18 years of age.

The state school stressed a philosophy of "family-like" life in cottages, discipline, useful labor, education, and outplacement.

Virtually self-sufficient, the orphanage included a gymnasium, a greenhouse, and a 287-acre farm. At any one time, up to 500 children were housed in 16 cottages on the grounds of the school. Every child had at least two jobs: one in the cottage and one on the grounds. Matrons oversaw their behavior, work, and study.

Life at the orphanage was a pecking order, especially for the boys.

"The strong ruled," Maxine Ronglien said in an interview. "If you were a good student, it did not go over well in the cottages. And if you were involved in music or theater, you were a sissy."

The school was run according to state educational standards. However, the nature of the

school, with children arriving and leaving, made the task a challenge for teachers.

Recreation was considered an important part of education. Tumbling was popular, and the school's tumbling teams appeared at the state fair. Girls, in accordance with the values of the time, received fewer opportunities for recreation than boys.

Adoption rates were low, about 4 percent, and until the 1930s many children were put out on indentured contracts. While a few

of these situations worked out, most did not. According to Maxine Ronglien, indentured children were rarely included in the families' lives, boys were frequently made to sleep in the barn, and girls were often sexually abused by the males in the family.

After World War II the foster care system became the preferred way of helping at-risk children, and the orphanage closed in 1945. The facility became a school for developmentally disabled children until the advent of mainstreaming. The school closed its doors in 1970, and its buildings stood vacant until 1974 when the city purchased the site for a civic center.

Today children once again play on the old school's grounds. Head Start, Big Brothers, and day care groups use some of the cottages. The gymnasium has become a recreation center, and the auditorium is now a community theater.

In 2003 an award-winning documentary, "The Children Remember," produced and directed by Kathleen Laughlin, showed the rest of Minnesota what Harvey Ronglien wrote about his 11 years of first-hand experience as a state schooler.

"The school housed, clothed, fed, and educated me," he said. "As an adult, I came to realize the institutional environment did not provide for certain needs a child craves."

"Emotional starvation is inseparable from institutional life. For many it left scars that would last a lifetime."

(M.K. WATSON)



Interior of Cottage Five at the Owatonna State School in 1900.

Photo courtesy of the Minnesota Historical Society